

Collateral damages of the housing crisis to the living conditions of the population Synthesis note / December 2011

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Over the last fifteen years, the increase of housing prices has had no link with the increase of household incomes. Between 1996 and 2011, old house prices were multiplied by 2.3 and rents by 1.6 while the average income per capita increased only by 1.5. According to national accounts, housing represents 22% of household spending and is the first item. This research is an attempt to identify and quantify the consequences of this increase on French people's life conditions and expectations. Are all the social categories compelled to do the same efforts? How do housing costs influence people's everyday life?

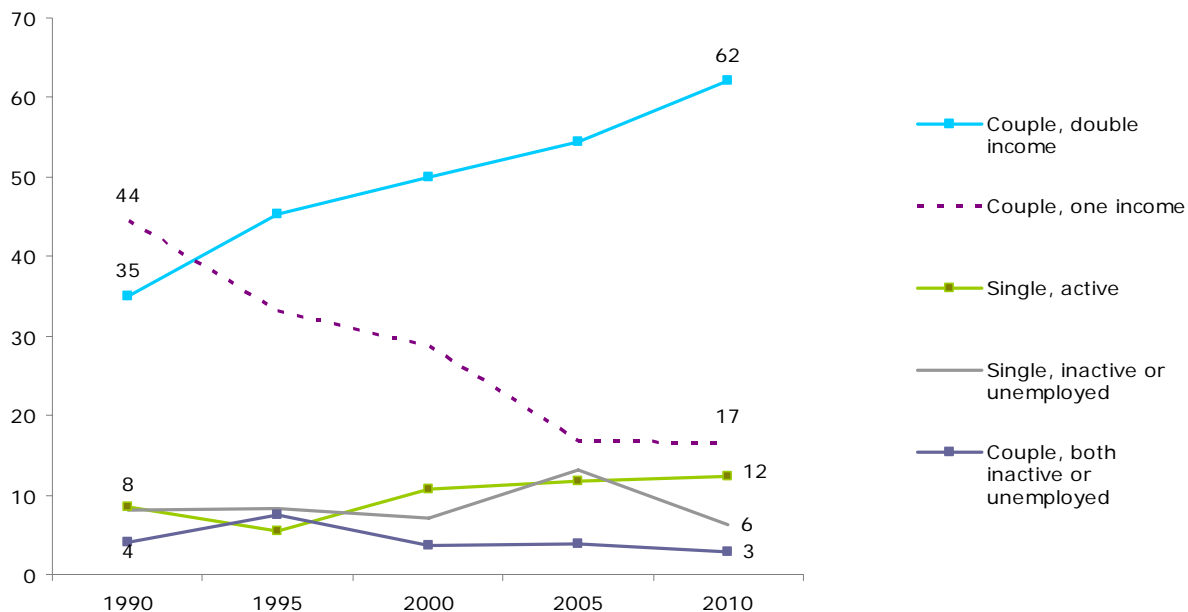
1. Owner or tenant ? a social marker

One of the first consequences of the high rise of housing prices and the slow process of home ownership (58% of the French currently own their house vs. 39% in 1960) has been a deep change of the inhabitants' social profile of each category, owner and tenant. While well-off households have generally been able to become owners (73% of the higher social classes own their house vs. 62% in 1990), low and middle classes have had even more difficulties to reach this goal (today only 31% of the low income families are owners vs. 51% in 1990). 43% of the new owners have a higher education degree vs. 22% of tenants. Having a sufficient revenue is no longer enough to become an owner. Two salaries are needed: 62% of the new owners are dual income households vs. 35% in 1990 (the average rate of dual income household has not changed much since 1990, approx. 25%).

It is getting more and more difficult for the young to become first-time owners thus they remain in rental housing. The rental housing stock has progressively become more socially marked than before: more young households, more singles, more low income families. Nowadays, 54% of the tenants are singles, widows or divorced vs. 34% among owners without mortgage or 19% among new owners. That means that the rent increase, although not as impressive as the real estate one, has had an impact on the percentage of monthly income spent on housing: rents have increased

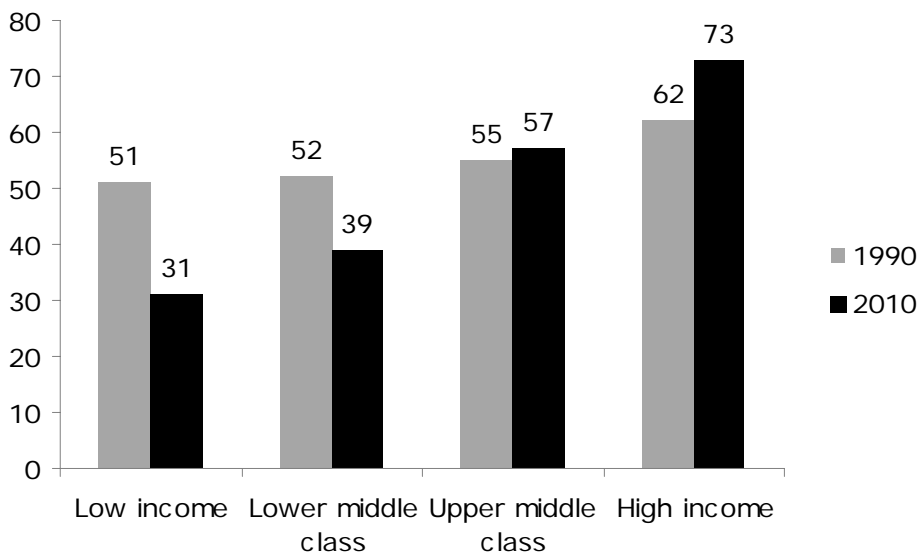
faster than the tenants' income. Moreover, owners who have finished paying their mortgage are getting older than previously: 47% of mortgage free owners are over 60 vs. 39% in 1980.

Family status and professional activity of home buyers



What it means: 62% of home buyers are dual income couple, whereas dual income couples are only 25% of the whole population.

Proportion of owners among a social class (in %)



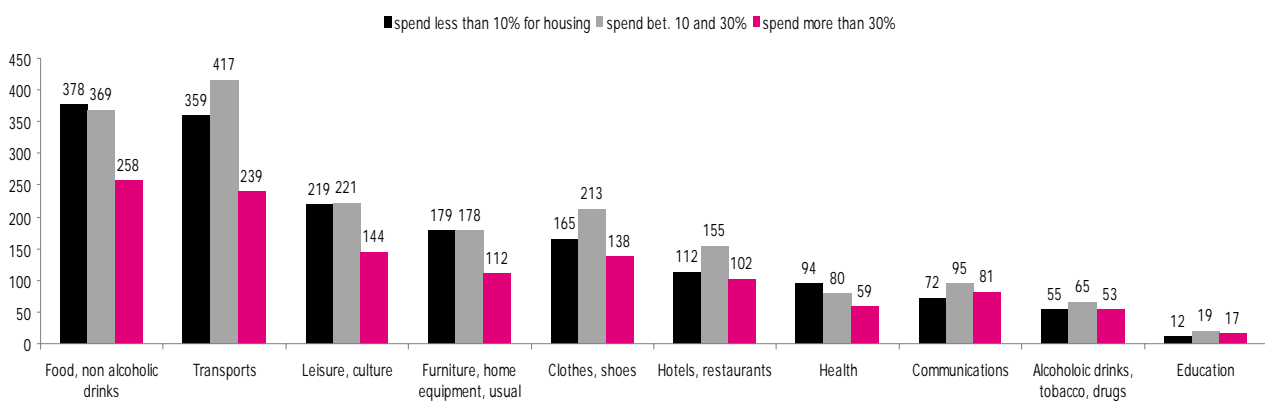
What it means: In 2010, 31% of the low income households own their house (with or without mortgage) vs. 51% in 1990.

Source: CRÉDOC survey, "Life conditions and desires".

2. Spending on food, transport, leisure and household equipment decreases because housing spending increases

The second impact of the increase of housing costs is their overlapping on other consumption budgets. Spending on food decreases from 378 euro to 258 euro when the percentage of the income dedicated to housing goes from less than 10% to more than 30%. The feeling of frustration with food expenditure is increasing more than with any other spending: 44% of households with heavy housing costs state they have to cut down on their food spending. This rate has increased by 23% since 1980. When the percentage of income dedicated to housing goes from less than 10% to more than 30%, people spend 120 euro less on transports, 75 euro less on leisure and culture and 67 euro less on furniture. These data are confirmed by logistic regressions which neutralise the traditional effects linked to the family composition, age or income. It is then easier to understand the increasing feeling of frustration in terms of purchasing power in the past years: households' income increase but a bigger part has to be spent on housing.

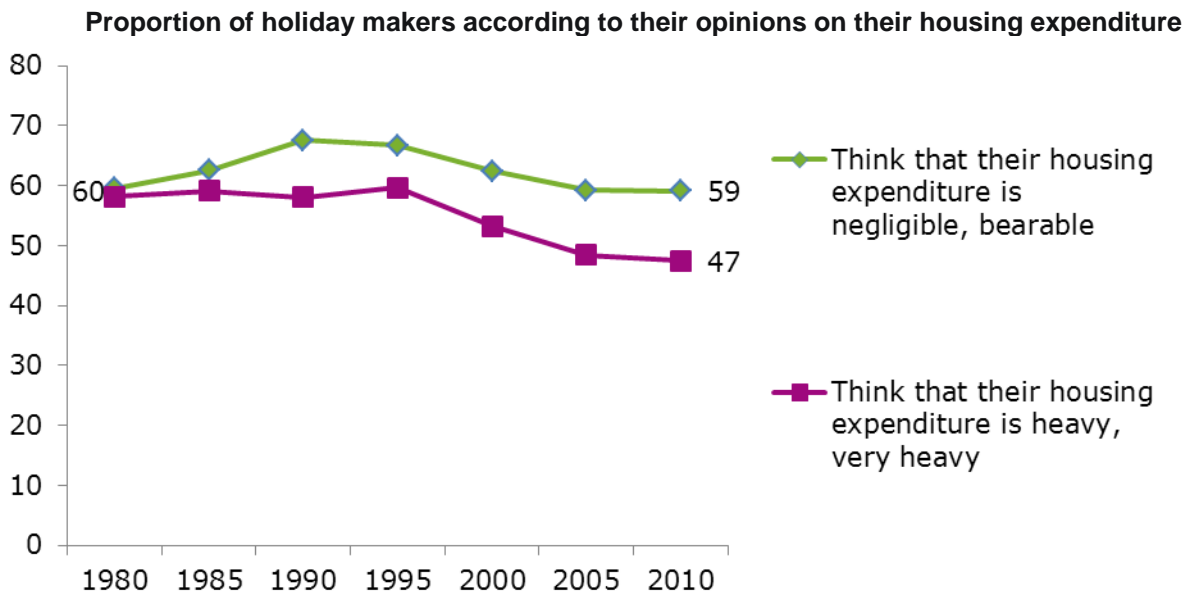
Monthly household expenditure in euro for various expenditure according to the % of income spent in housing



Source: amounts in euro based on the data gathered for the Family Budget survey, INSEE, 2006

What it means: Households who spend more than 30% of their income on housing spend 258 euro per month on food on average.

Spending on housing also has consequences on the holiday budget. After ten years of continuous growth, the proportion of holiday makers in the population has tended to decrease since 1995. This is particularly relevant among people who estimate their housing expenditure is very heavy: between 1980 and 2010, the number of holiday makers a decreased form 60% to 47%.



Source: CRÉDOC survey "Life conditions and desires", 2010

What it means: In 2010, 59% of people who consider their housing expenditure as insignificant go on holiday.

3. Owners take advantage of "wealth effects"

All the elements developed so far have underlined a fairly intuitive process which could be called "a purchase power effect", indeed, housing expenditure gradually cut down on other expenditure. However, all the money spent on housing does not have the same status. While paying a rent is pure consumption, the repayment of a loan is also seen as an accumulation of wealth. The home buyer gradually builds his own property whose accumulation infers some "wealth effects": the home buyers feel richer (especially when real estate prices increase), safer in front of the future and may be tempted by an increase of his living standard.

All other factors being equal, owning his home infers specific behaviours which can be explained by "wealth effects". Home buyers, although they have to repay a loan (the "purchase power" is then negative) happen to be the best equipped households: 97% have a colour TV, 90% have a digital camera, 93% have a personal computer, 90% have an Internet connection, 92% have a mobile phone, 92% have a fixed-line phone and 96% have a car. Tenants have lower home equipment rates. Owners and tenants are certainly not the same age. But the under-equipment of tenants remains even when the age and family status factors are not taken into account (thanks to logistic regressions).

Equipment rates according to the housing status

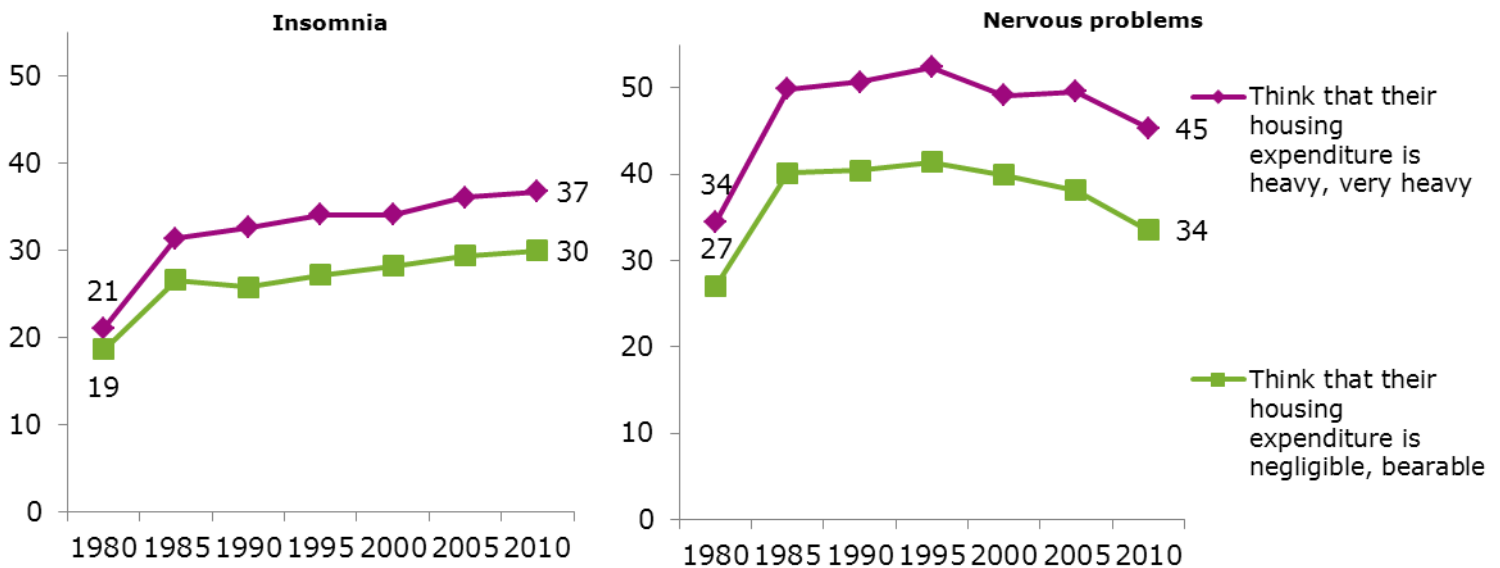
	Home buyers	Home owners	Tenants
Car	96	88	68
Television	97	99	96
Dish washer	78	70	31
Computer	93	69	74
Internet	90	64	66
Mobile phone	92	77	88
Fixed line phone	92	96	79
Digital camera	90	64	68

Source: CRÉDOC survey "Life conditions and desires", 2010

4. Housing and its consequences on health

Financial problems linked to housing have less obvious consequences. Many studies have already stressed the risks of living in a damaged house (indoor pollution, humidity, cold in the winter, heat in the summer, etc.). But the amount of money spent on housing seems to have consequences on people's health too. Households who spend more than 30% of their income on housing reduce their health expenditure by 35 euro a month vs. households who spend less than 10% of its income on housing. 44% of people who have problems to pay for their housing state that they have to spend less on health. This proportion has increased by 23% in the last 30 years. The share of people suffering from insomnia and nervous problems is stronger among people who have financial problems to pay for their housing than among the rest of the population. This difference was not so obvious in the 1980's. This effect is confirmed by statistic analysis "*all other factors being equal*".

Share of people suffering from insomnia or nervous problems in the last four weeks according to their opinions on housing expenditure



Source: CREDOC survey "Life conditions and desires"

What it means: In 2010, 37% of the people who think their housing expenditure is heavy have suffered from insomnia in the past four weeks.

5. Consequences on family life and social ties

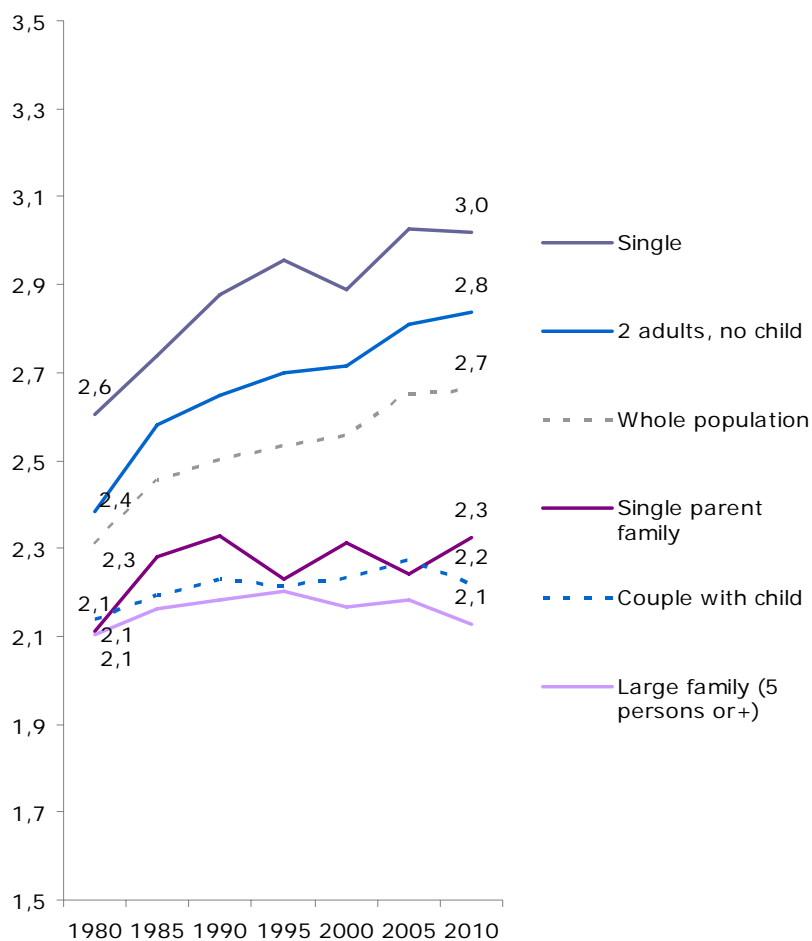
The background of the housing situation is a slow process to become an owner. It's getting harder for the young to be autonomous and the increase of divorces has a consequence on the share of housing expenditure for small families.

Whereas buying a house is a material way to create a family, more and more households have to "extend the existing place" when a new baby arrives. Single parent and large families have more and more problems to deal with housing costs: 56% and 53% respectively think their housing expenditure is heavy for their budget (plus 6% and plus 14% vs. 1980).

The increase of housing costs has obliged families to reduce space. While single and couples have increased the average number of rooms per person by 0,4 and 0,5 in 30 years, this increase is less important for single parent families (+ 0,2), couples with kids (+0,4) and large families (no increase).

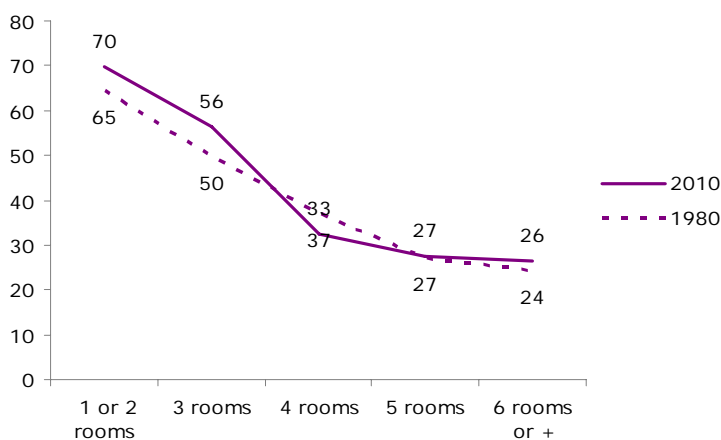
Among home buyers, the share of people living in large families has decreased faster than in any other family categories, from 30% in 1980 to 17% in 2010. The difference between the "ideal" number of children and the "actual" number, closely depending on the available space in the house, has become stronger among home buyers.

Number of rooms per person acc. to family types



What it means: In 2010, singles on the average have 3 rooms per person

Share of people who think that "having more children than they actually have" would be perfect according to the number of rooms in their homes. (36 to 59 yo)



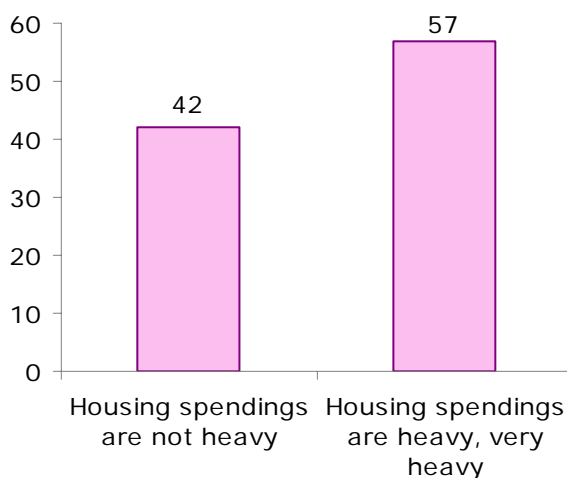
What it means: In 2010, 70% of people bet. 36 and 59 yo who live in a one or two room house state that the ideal number of children is higher than what they actually have.

Source: CREDOC survey "Life conditions and desires"

Further than in the family circle, the housing problem also has consequences on all the social ties. On the average, 52% of the population state "they **never** feel alone", 35% "they **sometimes** feel alone" and 12% "they **often** feel alone". Actually, between two persons who have the same characteristics (same sex, same age, same income, same family and marital status, same work), the one who is confronted with heavy housing costs suffers more (by 40%) from loneliness. Indeed, the housing costs replace the usual spending dedicated to social life like travel, sports, holidays, presents, parties...The difficulty to cope with the vital need of housing has consequences on the morale as well, it may have an effect on the capacity and the will to keep a relationship with the others. In total, 42% of people who say their housing expenditure is reasonable suffer from loneliness while this percentage reaches 57% among people who say their housing expenditure is heavy.

Whereas in the 80s, the housing spending had no consequences on sociability, 25 years later it is obvious that households having financial problems due to housing costs see their family less often than the others and are less involved in associations than other French people.

Share of people who sometimes or often feel lonely (in %)



Source: CREDOC survey "Life conditions and desires" early 2011

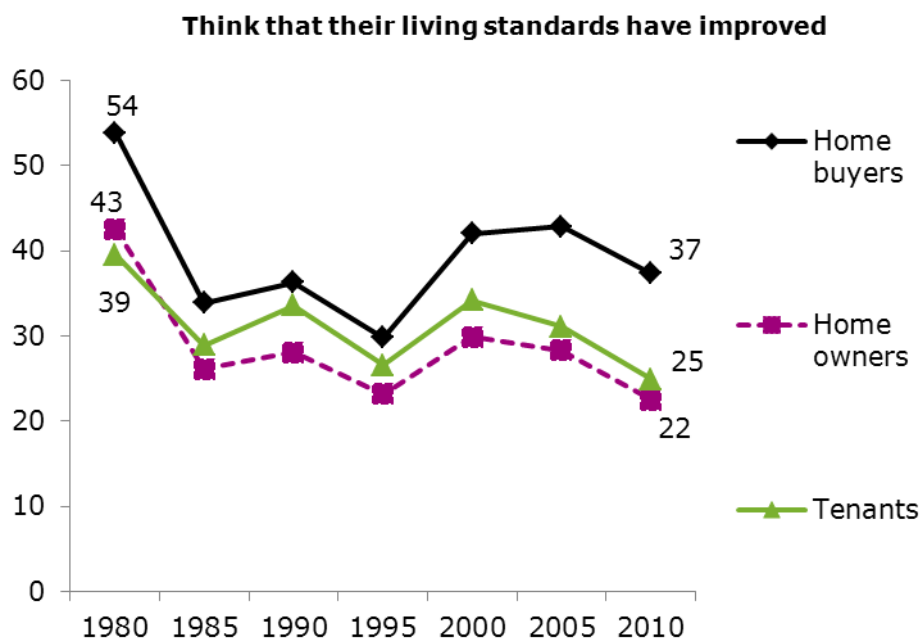
6. The increase of patrimony and the risk of social divide

For the last fifteen years, the value of houses and apartments has increased, thus highly increasing the home owners' patrimony. The "wealth effect" inferred by this situation has improved the owners' situation: better capacity to borrow money, capital gain if they sell, less fear of risks, higher level of consumption and equipment, etc. But the increase in real estate prices has also had resulted in dismissing the hope of buying for tenants, poor and young people, generating a feeling of frustration, vulnerability and drop in social status.

In 1995, tenants and home owners had the same vision on the evolution of their standards of living. Since the early 2000s, home buyers are much more optimistic than tenants. For the last thirty years, uneasiness inferred by unemployment, risks of war, nuclear accidents or severe diseases have tended to decrease among home owners (-3%) and to increase among tenants (+4%). Incidentally, if the age factors are not taken into account, we can see that tenants are by 40% more anxious than home owners without loan.

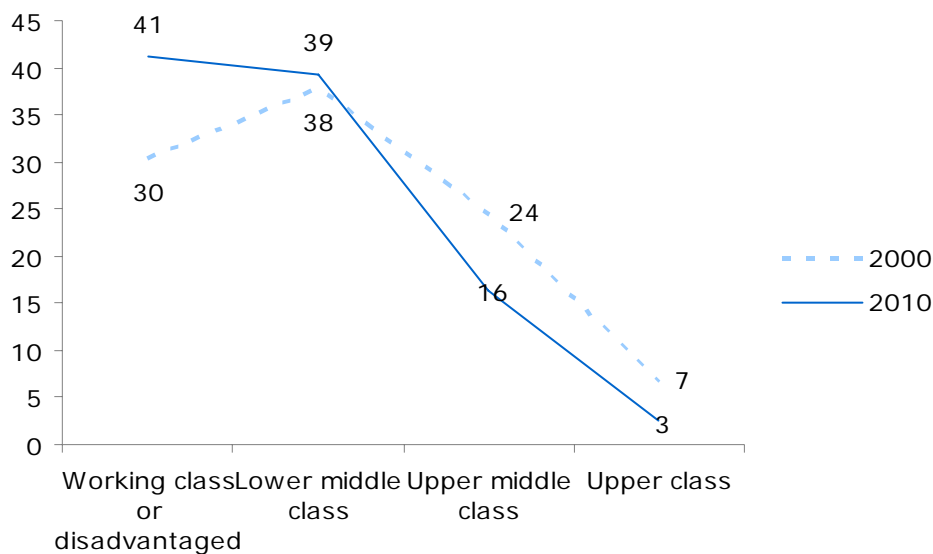
The feeling of social weakness is also illustrated by this fact: today, 41% of tenants think they belong to the working class or to the disadvantaged, while they were only 30% ten years ago. The gap between home owners who feel safe and tenants who feel threatened is widening.

Subjective evolution of living standards for the last ten years (in %)



What it means: in 2010, 22% of the tenants think their living standards has improved for the last ten years

You are a tenant, which social class do you feel you belong to? (in %)



What it means: in 2010, 41% of the tenants state they belong to the working class.
Source: CREDOC survey "Life conditions and desires"

Conclusions

It is necessary to take the patrimony into account when analysing living conditions

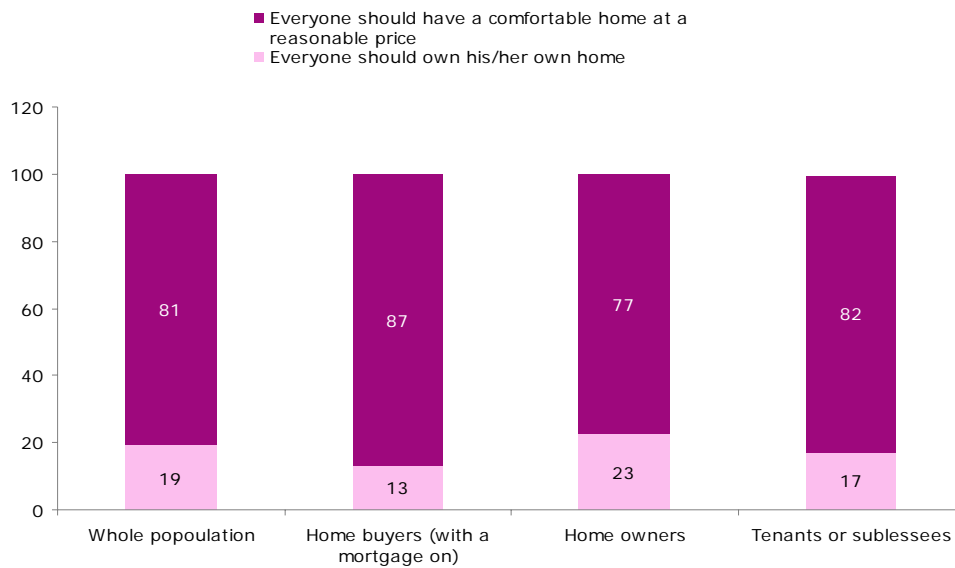
The impact of housing on our fellow citizens' living conditions is meaningful: on 46 different opinion and behaviour variables that we tested, in 85% of the cases, the housing status (home owner or tenant) infers a difference between these two categories (all other factors being equal), in 65% of the cases, the feeling that housing is an important financial burden also has an important role. By way of comparison, in 80% of the cases, the income is an explicative factor of behaviours and opinions. These results should lead us to introduce the housing factor -and more generally, all the patrimony elements- as explanatory variables of living conditions and opinions discrepancies. This recommendation is even more urgent when we consider the increasing weight of housing in the economy.

Home ownership for all or affordable housing for everyone?

For a long time, the governments have bolstered the purchase of housing. This political will is an answer to a deeply rooted expectation of the French collective imagination. But today, the cost for a newcomer has become very expensive. The young, the middle class and the low incomes who can't be helped by their families have no access to the real estate market. It arises the problem of the inheritance equity and of the increasing patrimony inequities. Owning his/her home or being a

tenant is a new factor of the social divide. Confronted with this situation, should the government favour, whatever it may cost, the home purchase or try to improve the housing conditions of most people? When interviewed on the subject, 81% of the French think it is important that "everyone can have a comfortable home at a reasonable price"; only 20% prefer that "everyone can become a home owner".

According to you, what is the most important?



Source: CREDOC "Life conditions and desires" early 2010

What it means: 87% of home buyers think that it is more important that "everyone can have a comfortable home for a reasonable price" while only 13% think that "it is more important for everyone to own his/her house".